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September 7, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

William Kennard
Chairman
FCC
445 12th St., SW
Washington, D.C. 20554

Re: Low-Power FM

Dear Mr. Kennard,

I would be very interested in commissioning one of our Technology Fellows to complete a study on the Low-Power FM debate. Alexis de Tocqueville Institution is a market-democracy policy group, and we are always interested in the free market debate. After reading this article, it seems that Low-Power FM stations might enable local communities to broadcast neighborhood agenda. In addition, it appears that Low-Power FM might increase competition for listeners and advertisers.

AdTI supporters are always interested in ways technology can advance democracy, self-empowerment and freedom. In addition, AdTI supports the position that competition is the best protection for consumers in the long-run. We are very interested in the FCC's "vision" for low power broadcasters and believe an AdTI report on Low-Power FM could be extremely effective in illuminating the facts regarding this debate.

We would very much like to meet with an FCC spokesperson that could provide us with some additional information so we could possibly write a few op-eds on this subject. We are also very interested in learning about any firms or groups outside of the FCC that could work with us on this type of report. My direct telephone number is 703-351-4969.

Sincerely,

Kenneth Brown
Senior Vice President

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What's the Frequency, Kennard?

FCC Chief Angers Industry Execs in Push for Low-Power FM

By Frank Ahrens
Washington Post Staff Writer

ORLANDO

It's tempting to paint it as the Big Guys against the Little Guys, or just another case of The Man trying to keep them down. If only the fight over low-power FM radio were that simple.

Heading into last week's big radio show here, an annual convention put on by the National Association of Broadcasters, it seemed that this convention was going to be all about digital radio. Indeed, most of the vendors scurrying about the massive convention center seemed either directly or peripherally involved with the coming digital revolution: Three companies are racing to develop technology that, they say, will make AM sound like FM and FM sound like CDs.

Also, converting analog signals to digital will allow broadcasters to pack other information into the radio waves coming into your brand-new digital radio. For instance, a digital radio might display the title of the song playing, as well as the artist. Or it might show a picture of the singer.

But digital is for the future. Gee-whiz technology got pushed aside by an old-fashioned real estate fight, one that's happening right now. Federal Communications Commission Chairman William Kennard is pushing low-power FM radio—tiny FM stations with broadcast ranges of a few blocks to a few miles—with the vigor of a crusader. Currently, illegal "pirate" broadcasters with low-power transmitters jump onto FM bands without approval from the FCC, which polices the airwaves. Kennard wants to legalize and regulate them. In Kennard's vision, low-power broadcasters will be organizations such as "churches, community groups and colleges. It can give voice to those ideas not always heard," he said at a breakfast here, "but which many yearn to hear."

On the other side of the argument are commercial broadcasters, keepers of an industry that generates more than $14 billion a year. Kennard's vision is their nightmare.

"I would be surprised if anyone in this room would give a ringing endorsement for low-power FM," said Ed Christian, president of Saga Communications—which owns 41 Midwest and New England radio stations—during a panel discussion in a packed ballroom. He was probably right.

David Field, president of Entercom—a chain of 42 stations, most of them in the Northwest—called the low-power proposal an "ill-conceived concept."

The radio execs' argument is twofold: One, more stations potentially means more competition for ad dollars, and that is not good for existing ones. Second, low-power stations will interfere with existing stations.

We throw out the first argument because we understand that an organization exists to protect itself. But that should not matter to the FCC: It is a regulatory agency whose mission does not include protecting broadcasters from competition.

The second argument holds more merit. With an acknowledgment to the growing broadcast capabilities of the Internet, radio stations live and die by the maintenance of their frequency—that number you see on the dial. Imagine that you have a shirt store. You sell shirts with success. Then, another shirt vendor starts selling shirts in the lobby of your store, taking away some of your business by occupying the space you paid for. You'd be outraged. That's how existing radio stations feel about the threat of low-power radio.

The debate, then, comes down to science and who has the more persuasive technical analyses. Most commercial FM stations broadcast with a power of 5,000 to 50,000 watts. The FCC is considering low-power stations of 10, 100 and 1,000 watts. At last week's breakfast, Kennard reported on an FCC study that used a variety of radios to test for interference. Currently, the frequency of a radio station is protected on both sides. For instance, WWDC's FM frequency is 101.1. That means that other broadcasters within DC101's broadcast range cannot occupy adjacent frequencies 100.9 or 101.3 on the dial. Kennard said the FCC's first round of tests are "very promising." Simply put, he believes low-power FM stations can be made to work without interfering with existing stations.

Radio execs are unconvinced and have submitted their own technical studies that say just the opposite. Fine. They have every right to try to protect their most important asset.

Several low-power advocates I've spoken to—including pirates—want low-power not just because they don't like the music being played on the radio (though many do). They see low-power FM as fulfilling a community service—one of radio's original charges. Their strongest argument is that they serve the poor in urban and rural areas. In Philadelphia, one pirate station broadcasts health and birth control information. In San Marcos, Tex., another airs community news and regional music that wouldn't be heard on commercial stations.

Radio execs at the NAB conference suggested the Internet as an alternative to giving a radio station to "every man, woman and child in our country," said William Stakelin, president of Regent Communications.

When I pointed out to the assembled panel members—as a reporter in the audience—that the very poor cannot afford a computer and a monthly Internet fee but certainly can afford a cheap radio, they scoffed.

"Probably the same person who can't afford a computer has a cheap radio, and the interference [from the low-power FM stations] will cause them to lose their favorite station," said Entercom's Field.

When I said that many of the low-power advocates want to broadcast information about health or community organization or immigration, Saga's Christian replied: "What are you going to do with the other 23 hours in a day?"

Randy Michaels, president of radio giant Clear Channel—which owns 476 U.S. stations—pleaded with the FCC to make the low-power licenses nontransferable, so "after they're done playing radio with their 10, 100 watts, they can't sell them."

More than one of the execs said low-power can't work because "you can't change physics."

Perhaps it was my tour of the Kennedy Space Center, while I was here in Florida, that made me skeptical of this statement. After all, NASA scientists repeatedly faced impossible obstacles. And surely establishing low-power FM has got to be easier than landing a man on the moon.

Don & Mike Dropped

The Don & Mike Show, WJFK's (106.7) afternoon-drive ratings king, was dropped by an Albuquerque station for anti-Hispanic remarks made on the Aug. 17 show, reports the Albuquerque Tribune. Don Geronimo and Mike O'Meara called the city hall of El Cenizo, a small West Texas town near the Mexican border, to talk to city officials about a recently passed ordinance that requires all city meetings to be conducted in Spanish.

When a woman answered at city hall, the hosts began their usual shtick—humor laced with insult.

"If your people cannot understand my language, they should get on their burros and go back to Mexico," one of the hosts told the woman, who turned out to be El Cenizo city commissioner Flora Barton.

The show was broadcast on KHTL-AM in Albuquerque, one of about 60 stations that carry "The Don & Mike Show" nationally. Hispanic advocates there denounced the remarks and demanded that Albuquerque-based Citadel Communications—which owns KHTL-AM—drop the show. It did, 10 days later. The show's hosts and producers are on vacation and could not be reached for comment.

Got questions about radio? Log on to www.washingtonpost.com/liveonline today at 1 p.m. and pepper The Listener with queries about radio, his take on the NAB convention, or his observations on spending a week in Central Florida.

ALEXIS
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INSTITUTION

A Telecom Scorecard: Consumer Costs for Basic Services in the Americas

by Philip Peters, Senior Fellow
and Sharon Donovan, Adjunct Researcher

October 1998

Summary

If a Virginia businesswoman calls London to explore a marketing opportunity, she pays $5.40 for five four-minute calls. For the same calls, a Mexican competitor will pay $25.20; a Venezuelan $53.60; a Peruvian $31.20; and a Bolivian $43.60.

This is but one illustration of the impact that high telecom costs have on communication and competitiveness.

This survey of Latin America and the Caribbean shows that the region's consumers pay widely divergent prices for basic telecommunications services. Most pay relatively low (often subsidized) rates for local service. But they pay far more — over three times the charges to U.S. consumers — when they make greater amounts of local and long distance calls, plus some international calls and Internet accounts. These are the services that are essential to electronic commerce and the information economy, and to international competitiveness.

The survey, a snapshot of twenty markets in the process of liberalization, shows how much consumers stand to gain when open, competitive markets bring prices into line with costs.

The survey data will be maintained and updated on the *InfoAmericas 2000* website (www.infoamericas.org). Readers are encouraged to contribute data. Inquiries and information can be sent to peters@infoamericas.org.

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Backdrop: markets in the process of liberalization

Although countries are at different stages of progress, virtually every country in the Americas is in the process of liberalizing its telecommunications sector to improve and extend service, expand choices, and reduce costs. Twenty countries in the hemisphere signed the February 1997 WTO agreement on basic telecommunications services, a set of commitments to liberalize and open telecom markets. (The full text of each country's commitment under that pact can be found at www.infoamericas.org.)

Typically, the process begins with the privatization of a state-owned monopoly carrier. Many governments permitted these carriers, once transferred to private ownership, to retain monopoly status for a fixed period, after which competition is introduced in "value-added" services such as paging and cellular telephony, and later in basic services such as local and long distance.

As countries liberalize, they also grapple with the challenge of creating a regulatory framework for a competitive market. The challenges include setting ground rules for the transition to competition, determining how to treat the former monopoly (especially if it retains substantial market power), and accommodating digital-era technologies and processes (such as Internet telephony) that defy old regulatory concepts and create new possibilities for telecommunications services.

The United States is at an advanced stage in this process, but it has by no means completed it. The 1996 Telecommunications Act promised greater competition, but a key promise of that law — competition in local service — has been thwarted to date by court battles fought by the local monopolies, the former Bell companies. Debates are raging over the 1996 Act and the FCC's implementation of it, the future of universal service obligations, and the regulatory treatment of Internet telephony.

Survey of costs

In July and August of 1998, the Alexis de Tocqueville Institution surveyed Latin American and Caribbean markets to find the cost of basic telecommunications services for residential consumers. We did not examine prices for "value-added services" such as cellular service, even though many consumers, especially in countries with large pent-up demand for phone service, use this as their basic telephone. Nor did we examine business rates.

For the sake of simplicity and uniformity, and to gauge the prices that affect the greatest number, we focus on the cost of basic residential service as an important benchmark in itself, and as a reasonable indicator of the general level of telecom costs.

Because billing methods differ, comparisons are imperfect. Comparing the cost of local service presented a particular problem: Ecuador, Haiti, and the U.S. allow unlimited local calling for a flat monthly rate, while all the other countries in our survey charge completely or partially (e.g. after a hundred-call threshold is reached) on a per-minute basis for local calls.

We used a "market basket" approach that is common to consumer cost surveys. We created two hypothetical usage patterns for two families, and we measured the costs on their monthly phone bills according to the rates in their countries.

The first family (Low Usage) makes primarily local calls and a minimal amount of long distance calls each month.

The second family (High Usage) is a high-income family that makes local calls, plus a substantial amount of domestic long distance service and some international calls, and pays for Internet access in the home. (This inclusion of Internet access is the only "value-added" service price we examined.)

Local service costs are generally low for minimal usage...

Monthly bill for 240 minutes of local calls (all charges in U.S. dollars).

	Cost	Rank
Argentina	40.52	20
Bolivia	22.85	18
Brazil	12.43	13
Chile	32.14	19
Costa Rica	4.30	6
Dominican Republic	5.67	7
Ecuador	3.41	2
El Salvador	10.28	11
Guyana	1.88	1
Haiti	4.13	4
Jamaica	3.76	3
Mexico	18.52	16
Nicaragua	7.40	8
Panama	7.40	8
Paraguay	3.84	4
Peru	19.37	17
Trinidad and Tobago	14.57	14
United States	18.42	15
Uruguay	10.95	12
Venezuela	8.81	10

The average of these charges for Latin American and Caribbean countries is $12.22, 34% less than a U.S. consumer pays (albeit, like his counterparts in Haiti and Ecuador, for unlimited local calling). This gap may be partially explained by the widespread practice of subsidizing local service with domestic and international long distance revenues (Haitians, for example, pay $5.90 per minute to call London or New York). "Rate rebalancing" is the process of eliminating this cross-subsidy; this has been undertaken in Chile, Mexico, and Argentina — a fact that probably explains these countries' relatively high local service costs.

...while long distance rates are generally higher than in the U.S.

Monthly bill for ten five-minute domestic long distance calls.

	Cost	Rank
Argentina	33.18	19
Bolivia	22.17	18
Brazil	10.50	13
Chile	12.50	17
Costa Rica	2.60	6
Dominican Republic	9.00	11
Ecuador	9.70	12
El Salvador	1.40	3
Guyana	2.00	4
Haiti	141.70	20
Jamaica	1.00	1
Mexico	11.10	16
Nicaragua	6.00	8
Panama	7.50	10
Paraguay	10.50	13
Peru	1.05	2
Trinidad and Tobago	5.50	7
United States	6.00	8
Uruguay	2.50	5
Venezuela	10.50	13

The average charge for this modest amount of long-distance usage in Latin American and Caribbean countries is $15.81, two and one half times the U.S. charge. If we eliminate Haiti so that its exorbitant charges do not skew the sample, the charge is $8.35, still 39% higher than in the U.S.

"Low use" consumers pay approximately the same as in the U.S...

Monthly bill for 240 minutes of local calls, plus ten five-minute domestic long distance calls.

	Cost	Rank
Argentina	73.52	19
Bolivia	44.85	18
Brazil	22.93	14
Chile	44.64	17
Costa Rica	6.90	3
Dominican Republic	14.67	9
Ecuador	13.11	5
El Salvador	11.68	4
Guyana	3.88	1
Haiti	145.83	20
Jamaica	4.76	2
Mexico	29.62	16
Nicaragua	13.40	6
Panama	14.90	10
Paraguay	14.34	8
Peru	20.42	13
Trinidad and Tobago	20.07	12
United States	24.42	15
Uruguay	13.45	7
Venezuela	19.31	11

This is a hypothetical phone bill for a family that makes minimal local calls and a modest number of domestic long distance calls each month.

The average charge in Latin American and Caribbean countries is $28.01, 15% higher than in the U.S. If we again eliminate Haiti to prevent it from skewing the sample, the average charge is $21.47, 12% lower than in the U.S.

So, while there are a wide range of charges, the average of these hypothetical "low use" phone bills is close to the bill paid by U.S. consumers. All of the countries in the sample, however, have per capita incomes less than half that of the U.S.

...while "high use" consumers pay significantly more.

Monthly bill for 1500 minutes of local calls, 240 minutes of domestic long distance, five four-minute calls to London, five four-minute calls to the U.S., and 30 hours of Internet access.

	Cost	Rank
Argentina	298.30	18
Bolivia	259.25	17
Brazil	173.10	12
Chile	239.82	15
Costa Rica	147.58	7
Dominican Republic	153.41	8
Ecuador	164.09	9
El Salvador	139.42	5
Guyana	101.09	2
Haiti	684.88	20
Jamaica	125.70	3
Mexico	201.42	14
Nicaragua	257.93	16
Panama	166.40	11
Paraguay	189.80	13
Peru	165.77	10
Trinidad and Tobago	145.40	6
United States	78.97	1
Uruguay	129.65	4
Venezuela	322.26	19

This is a hypothetical phone bill for a family that makes greater use of basic phone service, and uses some of the services essential to the information economy — international long distance, and Internet access. In this category, the U.S. consumer's charges are less than one third (30%) of those paid by consumers elsewhere in the Americas. If Haiti is eliminated, the differential is still high: the U.S. charge is 32% of the non-U.S. average.

Conclusion: High Costs Are A Brake on Competitiveness

In February 1997 when the WTO telecom services agreement was reached, WTO Director-General Renato Ruggiero predicted that liberalization would bring "very significant" price reductions to consumers, perhaps resulting in global income gains of a trillion dollars in one decade. The agreement would also make "access to knowledge easier," he said, resulting on other benefits. "Information and knowledge, after all, are the raw materials of growth and development in our globalized world."

Policymakers know that access to reasonably priced telecommunications services is critical to any business that operates in the global economy, from start-ups to established international corporations. A British Telecom/MCI survey of the world's top thousand corporations placed telecom infrastructure as the third most critical factor in decisions about location of new international facilities — only political stability and a skilled workforce ranked higher. The factors that drove the manufacturing economy (raw material and capital costs, transportation infrastructure) all scored lower.

Our data starkly show the way high rates can tilt the playing field to the competitive advantage of users in liberalized telecom markets.

For example, a home-based business proprietor in the U.S. may decide to explore marketing opportunities in the U.K. When the American entrepreneur makes five four-minute calls to London, he pays $5.40. His competitors in Latin America are at a disadvantage; for the same calls a Mexican pays $25.20; a Venezuelan $53.60; a Peruvian $31.20; and a Bolivian $43.60.

Our survey, then, indicates the gains that are to be realized when competitive markets are functioning, and prices are driven toward costs. There is no doubt that the hemisphere is moving in this direction; governments are committed to liberalization, and capital markets are financing the competitors who are building the infrastructure for competitive, digital-era telecom markets. However, many countries are struggling with the inherent challenges of transforming their telecom markets, and with the resistance posed by former monopolies opposed to changes that risk any erosion of their market position.

Will the situation improve?

High and uneven telecom costs ensure that the market will continue to provide incentives for technological innovation and creative routing of traffic to evade the traditional phone network through Internet telephony, "call-back" services, "by-pass" arrangements that avoid settlement rates on international traffic, and other means. These kinds of telecom "arbitrage" are sometimes vexing to regulators and they are always despised by traditional dominant carriers, but they do drive costs down.

Public policy is also helping, as countries carry out commitments to open their telecom markets. But in a sector where regulation can be unintelligible and "competitive" market conditions can be more apparent than real, consumer and public awareness is critical. We hope that this survey, and future editions of it, will help to create a clear standard against which the results of market liberalization can be measured.

Notes on the survey

1. We welcome readers' contributions to keep the survey data up-to-date. Anyone wishing to contribute data can send it or any inquiry to peters@infoamericas.org. We made a strong effort to reach multiple sources in each country, and to find the lowest prices available on the market. In the fast-paced telecom market, however, it is likely that we missed the lowest prices in some markets, and it's equally likely that new competitors have been undercutting rates in some of the hemisphere's highest-priced markets since we collected our data. So we encourage readers to contribute, and we will keep a current version of our data on the *Infoamericas* site.

2. We recognize that direct comparisons of long-distance charges in countries of differing size do not reflect equal conditions and cost structures. Our data reflect peak rates for the longest distance call in each country.

3. The region-wide cost averages we stated are not weighted by population.

4. In the international long distance data, we measured the cost of calls to London and the U.S. for all countries except for the U.S.; in that case, we measured the cost of calls to London and Chile.

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The Alexis de Tocqueville Institution is a nonprofit, nonpartisan public policy research organization in Arlington, Virginia.

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